

Video Lottery Advisory Council
Meeting Minutes
April 2, 2013

Members present: Kevin DeLucia - VP Finance - Delaware Park
Patti Key – Chief Executive Officer - Harrington Raceway & Casino
Vernon Kirk – Director - Delaware State Lottery
Robert Neugebauer – DE Account Manager – Spielo International
Tim Shortall – Vice President U.S. Eastern Region – Sales - IGT
Ed Sutor – President & CEO - Dover Downs Hotel & Casino

Members absent: Brennen Lawrence – VP/GM – Scientific Games

Attendees: Jim Borden - WMS
Tom Cook – Secretary of Finance – State of Delaware
Mark Casto – Bally Technologies
Christer Farr – Delaware Park
Andy Gomeringer – Delaware Park
Stephen Keener – Dover Downs Hotel & Casino
Jim Logue – Delaware State Lottery
Mike Nickolich – Bally Technologies
Mike Ordille - IGT
Terry Smith – Delaware Park
Anthony Sofran - IGT
Scott Stewart – Scientific Games
Lenny Tranchitella – Harrington Raceway
David Waple – Scientific Games
Kathy Wayne – Scientific Games
Robert Willard – State of Delaware

Opening of the Meeting

- Ed Sutor
 - The minutes of the previous meeting on November 1, 2012 (which was a conference call due to Hurricane Sandy) were approved and posted on the State's website. The date, time and location of today's meeting, along with the other 3 meetings planned for 2013, have been posted on the State's public meeting section of their website.

Review of Competitive Situation

- Ed Sutor
 - As we know, Delaware video lottery revenue has been steadily declining as a result of increased regional competition, especially with the opening of Maryland Live, and everyone in the room (vendors, operators, State offices) has been impacted. The three Delaware video lottery agents are losing money due to waning business and a crippling revenue share model that cannot be sustained with the current volumes of business. With business down and no significant relief in regards to fees and taxes, the three

Delaware operators are limited in our ability to compete with the new regional competitors – there are no resources left to undergo exciting capital improvements or offer competitive marketing incentives. Dover Downs, a public company, recently posted our 4th quarter 2012 financials showing a loss. These are audited financial statements. Unfortunately our slot revenues continue to drastically decline during the first two months of 2013. We have been meeting with new legislators to inform them of the state of the Delaware gaming industry and how the partnership with the State works, and they all are shocked when they learn of the current, inflexible, revenue share agreement. We are under a lot of pressure because we're not making money.

- Speaking on behalf of Dover Downs, we have had to respond to this bleak financial situation by letting employees go. We have also changed our hiring practices, with 95% of our hiring being part-time employees. More than 50% of our employees are not on company benefits. The pension plan was frozen and we have stopped paying dividends to our stockholders. We were going to breach our bank loan covenants again and were able to amend the credit facility, but in a way that will significantly increase our interest cost. We are in a place where we need support from everyone involved, including vendors, industry professionals and their lobbyists.
- Handouts (included): The first graph shows the percentage decrease of slot revenue (85% of state gaming revenue comes from slots) from 2006 to current, starting in 2006 because that is the year before the regional casino boom began with Harrah's Chester. You can see that slot revenue has decreased with each new casino opening in the region, and was down 31.1% at the end of 2012 compared to 2006. For the first 2 months of 2013, we are down almost 21%. The second graph shows the decline of total slot revenue figures for each year from 2006 through 2012, and the percentage decrease over the prior year. The third graph shows how slot revenue has been broken out between the State, slot manufacturers, the Central System provider, and the operators from 2005 through 2012; showing an increase in the State, manufacturers and Central System share and a decrease in the video lottery operators' share.
- Most State legislators have no idea of the significant financial hardships the State's fourth largest contributor to the General Fund is facing – we are raising the red flag that we cannot continue operating at this level. If significant changes in the revenue share model are not enacted, we will without a doubt need to make further cutbacks, and no one in this room wants that.

Update from Video Lottery Agents

- Ed Sutor – Dover Downs
 - Dover Downs' current bank agreement requires essentially all cash flow to go toward debt relief, so there are no major capital improvement plans being considered. The only projects being done on property are basic

upkeep. Last year's license fee relief from the State was appreciated, but given the scope of the current financial crisis the Delaware gaming industry is facing, that was a Band-Aid applied to a hemorrhaging wound. If nothing further changes to benefit the tracks, there will be dire consequences impacting the three tracks, therefore affecting the contribution to the State and employment.

- Patti Key – Harrington Raceway
 - Harrington Raceway is also doing limited capital improvements, and the property is in need of some major repairs. We are currently under a hiring freeze, have cut back on staff through attrition, and employees are quitting because of our medical plan cut backs and cut back on hours. It's tough to update investors and make them feel secure in their investment when we're showing a trend of declining revenues. We have tried to compete by tweaking marketing programs, but we are losing money.
- Kevin DeLucia – Delaware Park
 - Delaware Park has experienced its worst first two months of the year since opening in 1995. We are in the process of refreshing some of our facility, hoping to cause some excitement on the gaming floor. The carpet on the first floor is being replaced and we converted one of our restaurants to a pizzeria. We are hopeful that the reopening of the exit ramp on I-95 north, which closed in July 2012, will be helpful for business. As the other properties have done, we have reduced staff and benefit levels in the past due to the effects of competition.

Update from Sec. Cook regarding recommendations of the 2012 Report to the State

- Tom Cook
 - To address the first, second and third recommendation (reinstate a tiered slot gaming tax structure, institute a tiered table game tax structure, and eliminate the remaining \$3 million annual table game license fee): The State continues to monitor these issues. Knowing the current state of the State, with Governor Markell recently announcing that the temporary tax increases introduced last year are going to be made permanent, it is difficult to say we will be able to lower the video lottery agents' tax requirements. The \$7.75 million in relief for reinvestment approved by the Administration last year was to help send recovery in the right direction. The Administration recognizes that the 3 video lottery agents are significant employers and a significant revenue source for the State, but I can't commit to any changes with the revenue share model at this time. We will continue to monitor and will be open for discussion if the situation changes.
 - The VLAC has been very successful over the past 10 years, recommending and gaining approval for a number of initiatives that have made Delaware a contender in the Mid-Atlantic region despite its small size. We enacted the capability to issue promotional credits as a marketing tool, the SAS protocol central system, sports betting, table games, and now the first state

to legalize internet gaming with a project start date of late September. Internet gaming was a recommendation of the VLAC to competitive. The State is working with the agents in reviewing vendors to concentrate not only on providing a great product, but creating a situation where the player will be incentivized to come to our 3 bricks and mortar locations to help the industry grow.

- The Administration will continue to monitor and analyze video lottery revenues. It is a necessity to focus as a council and an industry on the resources currently at our disposal and apply them in the best ways to draw customers to the 3 Delaware gaming locations. We need to strive to provide the best product, and customers will come back if we are creating an environment superior than the competition.
- To address the fourth recommendation (Amend the internet gaming revenue share rate included in the recently enacted law to match the internet gaming industry's model): The Administration, along with the Lottery and the 3 agents, is currently reviewing responses to the iGaming RFP, and will be able to better reevaluate the iGaming revenue share rate when a vendor is selected.
- To address the fifth recommendation (Amend HB 333 to allow for excess capital, marketing and debt service expenditures to be carried over to the next fiscal year): This relief measure was included in HB 333 to incentivize the industry to put money back into the property to provide a better product. This will be something the State will be willing to review and consider.
- Regarding the sixth recommendation (Allow the video lottery agents to deal (purchase or lease) directly with licensed slot machine vendors): The option to purchase slot machines was included in the recent, revised RFP for slot machine vendors. This has been approved and is done.
- To address the seventh, and last, recommendation (Hire an independent gaming consultant to review Delaware's regulatory gaming structure to improve efficiency, cost and effectiveness for the State and the video lottery agents): The video lottery agents' concerns related to outdated regulations modeled after Atlantic City's structure being the basis for Delaware's regulatory model have been reviewed by the Lottery office. The Lottery office is putting together proposed changes to some of the regulatory concerns, which should be completed and delivered to video lottery agents by May 1st. It will still be possible after this communication to consider an independent review.

Review of Lottery Initiatives:

- Vernon Kirk
 - The Lottery is pleased to report that the Keno product was recently launched at State approved locations. We are seeing a modest beginning in terms of revenue, but anticipate steady growth. This will be a good long-term product for the State.
 - The Lottery office is busy working on charitable gaming and iGaming initiatives.

- IGaming game content providers and primary vendors will be making presentations for the next couple of weeks. So far, we are on schedule with the project.

Review of Scientific Games Initiatives:

- Kathy Wayne
 - Scientific Games is operation as business as usual. We are currently working with the video lottery agents on some emergency projects that needed to be completed.

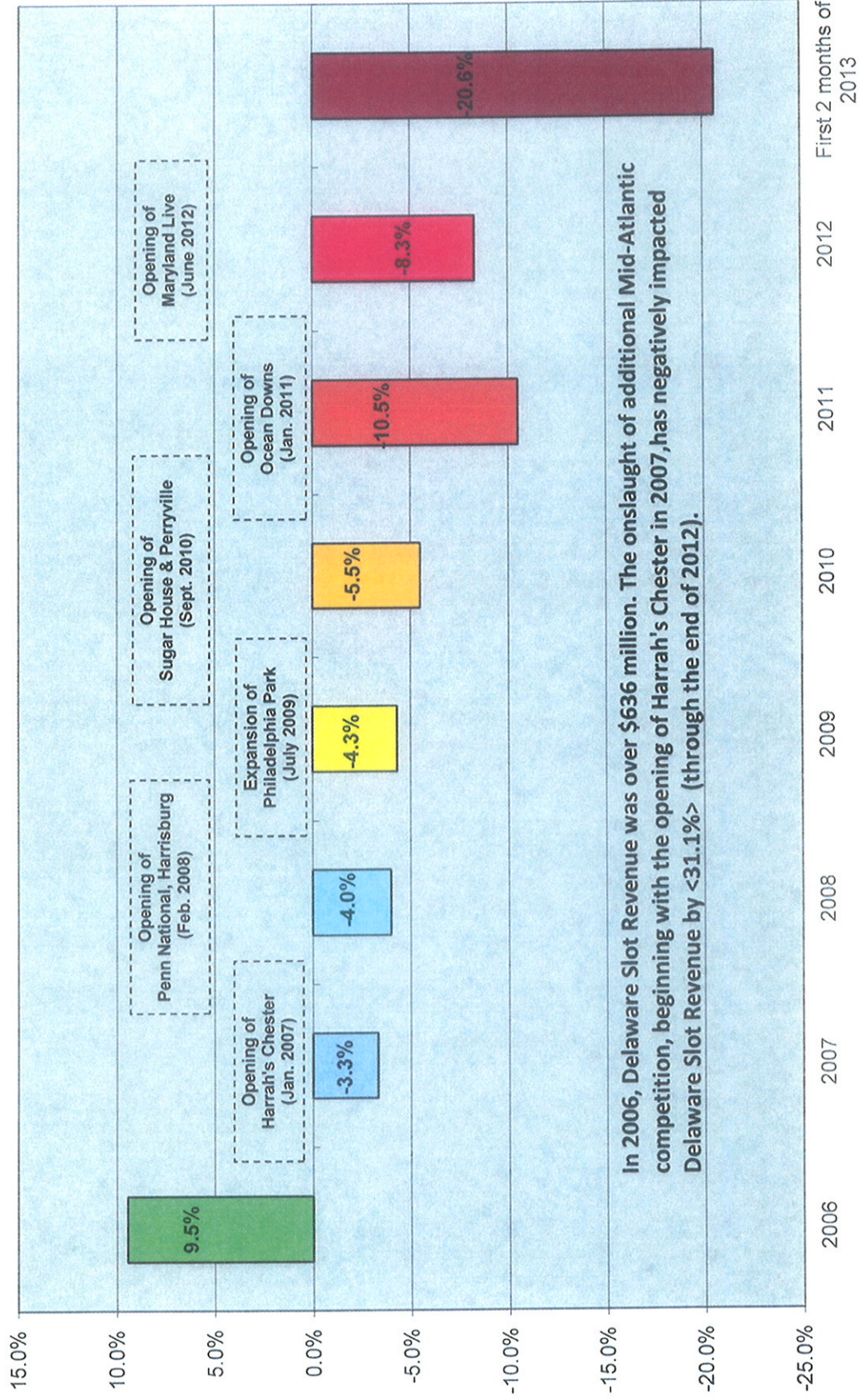
Review of Manufacturers New Products:

- Mike Ordille – IGT: IGT is dedicated to assist Delaware video lottery agents by offering the most competitive products. We are aggressive with the successful Mega Jackpot product, and are rolling out new themes including Judge Judy, CSI and Family Guy.
- Jim Borden – WMS: WMS has new franchise games being built for the Delaware market, including Aladdin, KISS, and Cheers.
- Robert Neugebauer – Spielo International: Spielo continues to make theme conversions on our current product to ensure our games are successful. The Atronic E-motions platforms had the new theme Magic 5's added at all three Delaware locations. The Aristocrat platform has a few conversions planned to introduce popular themes to the floor. The Spielo ProdiGi Vu platform has a couple of strong performing themes, 1421 Zheng Hi & Goldify, that are receiving positive feedback from players in other markets. New Spielo product set for approval this summer includes; Bejeweled (a popular internet/social media game), Plants vs. Zombies (an award winning action/strategy game), and Zuma (an action packed puzzle game).
- Mike Nickolich – Bally Technologies: Bally is bringing speed to the market with the new NASCAR themed game. Bally is and has been actively working to supply our Delaware partners with the newest and most up-to-date products.

Close of meeting

- Ed Sutor
 - Having no other business for discussion, the meeting adjourned.

Delaware Industry Slot Revenue Percentage Increase / Decrease Compared to the Prior Year

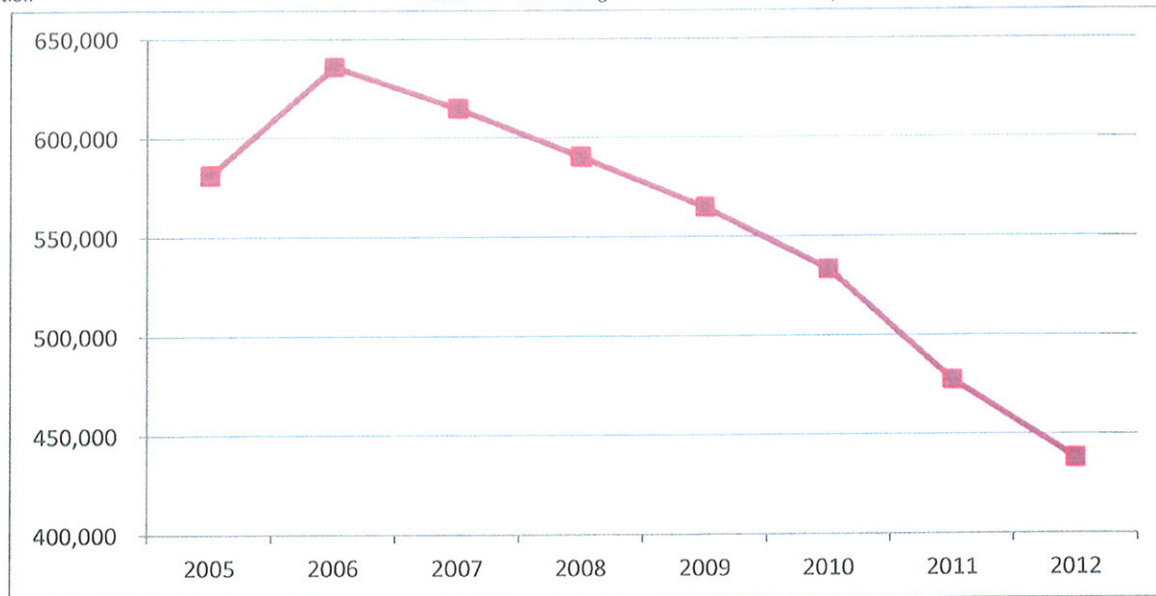


Delaware Industry Slot Revenue Analysis

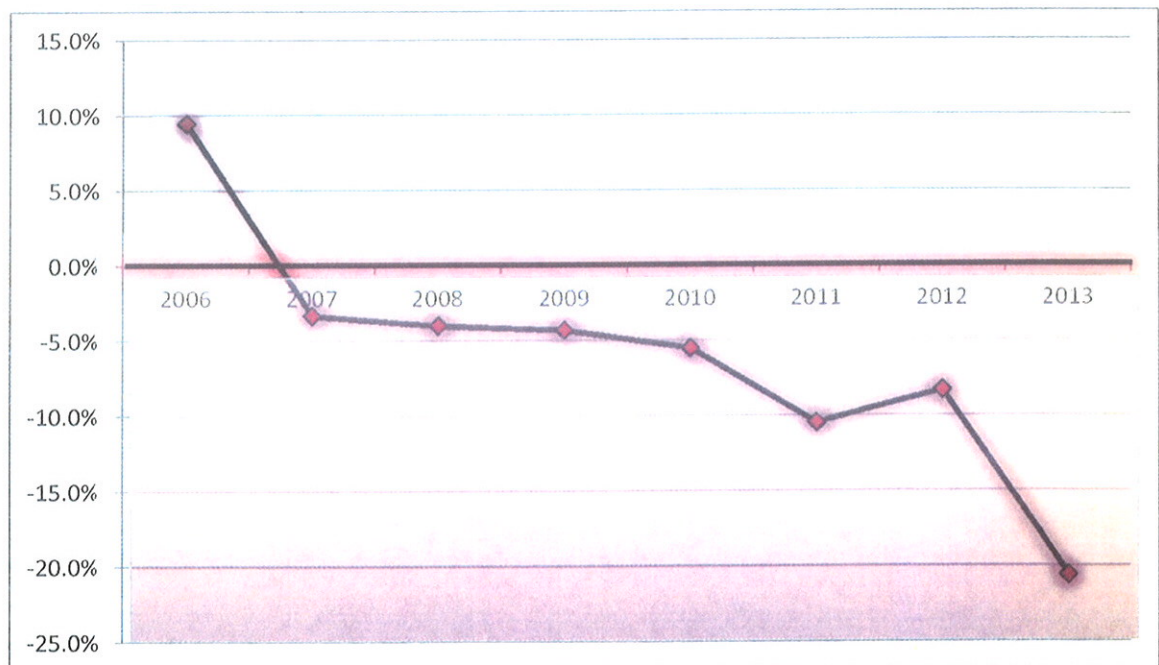
Impact of additional regional competition beginning with the opening of Harrah's Chester in 2007

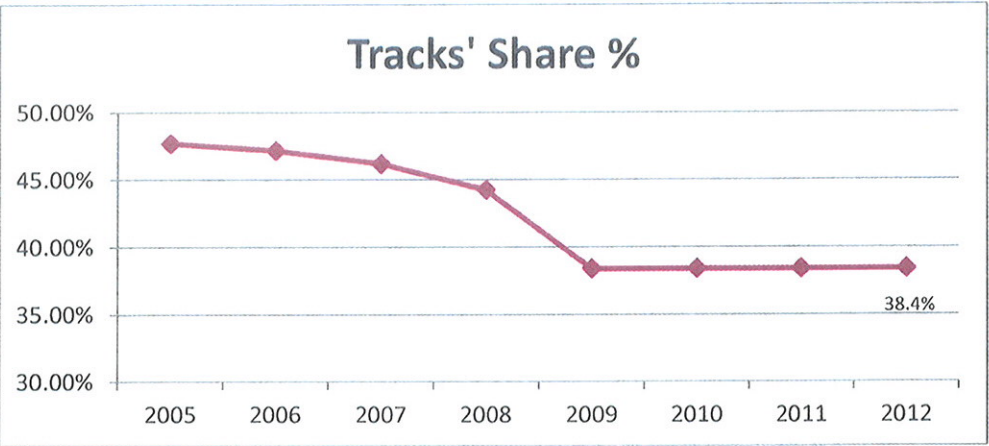
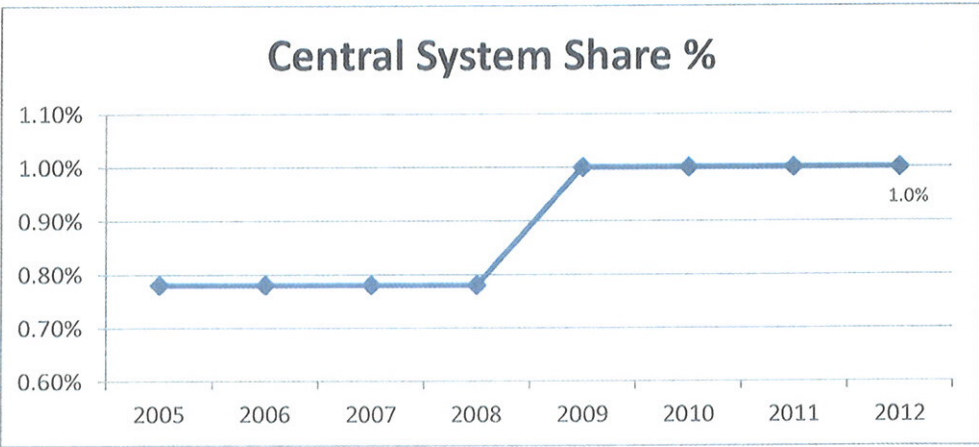
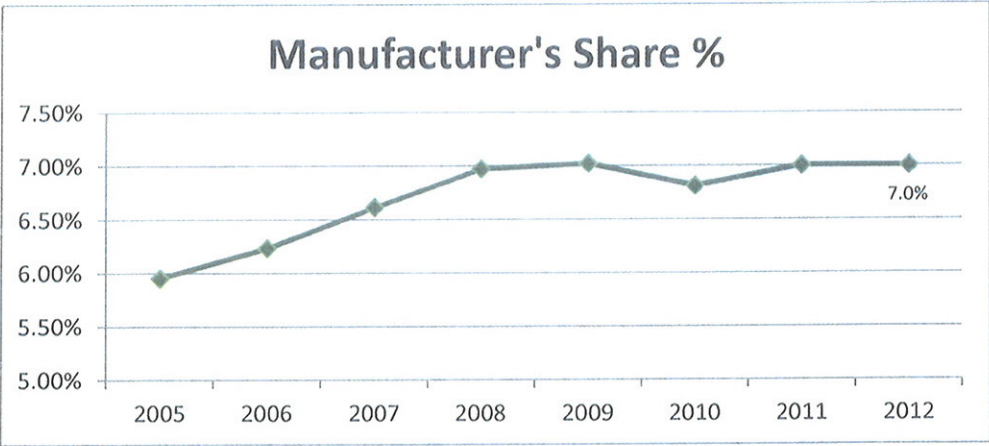
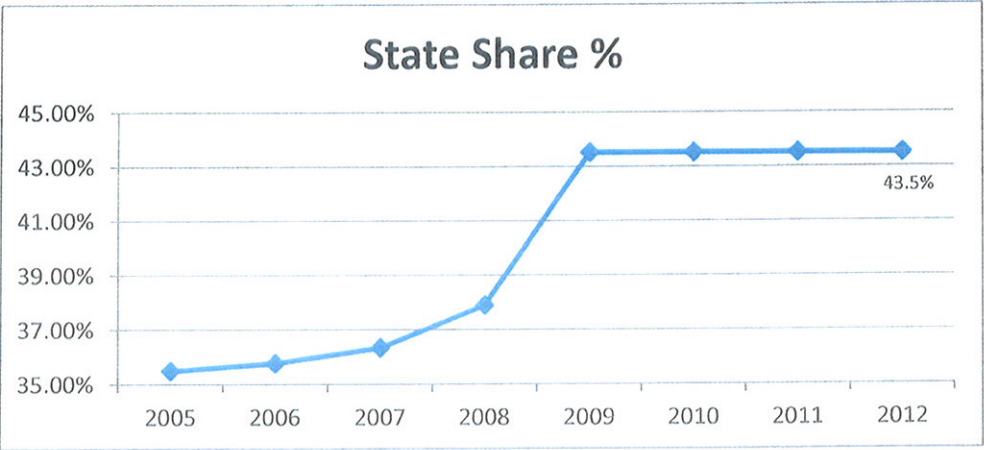
(\$ in thousands)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Slot Revenues	581,374	636,329	615,210	590,660	565,183	533,787	477,957	438,290
New Competition			Harrah's Chester	Penn NTL, Harrisburg	Expansion of PHL Park	SugarHouse & Perryville	Ocean Downs	Maryland Live



	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u> First 2 months
% Increase/Decrease Over Prior Year	9.5%	-3.3%	-4.0%	-4.3%	-5.5%	-10.5%	-8.3%	-20.6%





Delaware Industry
Recent History of Slot Revenue Sharing
Calendar 2005 - 2012
(Dollars in millions)

* Annual slot revenues peaked in calendar 2006 at	\$636.3 million
Slot revenues decreased every year since, and ended calendar 2012 at	<u>438.3</u>
Amount of decline	<u>\$198.0</u>
Percentage decline	<u>31.1%</u>
* The State's share percentage of slot revenues	
in calendar 2005	35.47%
in calendar 2012	43.50%
Increase in State share %	<u>8.0%</u>
Percentage increase	<u>22.6%</u>
* The Horseman's share percentage of slot revenues	
remained the same from 2005 - 2012 (blended rate)	<u>10.1%</u>
* The Slot Machine Manufacturer's share percentage of slot revenues	
in calendar 2005	5.95%
in calendar 2012	7.00%
Increase in Manufacturer's share %	<u>1.05%</u>
Percentage increase	<u>17.60%</u>
* The Central System Vendor's share percentage of slot revenues	
in calendar 2005	0.78%
in calendar 2012	1.00%
Increase in Central System Vendor's share %	<u>0.22%</u>
Percentage increase	<u>28.20%</u>
* The Track's share percentage of slot revenues	
in calendar 2005	47.70%
in calendar 2012	38.40%
Decrease in Track's share %	<u>9.30%</u>
Percentage decrease	<u>19.50%</u>